1/25/84 07475-4.16 A

SURVEYS OF CONSUMER ATTITUDES

MONITORING ECONOMIC CHANGE PROGRAM

Institute for Social Research

THE MAKING OF A RECOVERY:
CONSUMERS STRUT THE "RIGHT STUFF"

by

Richard T. Curtin

November 1983 WP19

This paper was originally presented at the 31st Annual Conference on the Economic Outlook sponsored by the Department of Economics and the Survey Research Center at the University of Michigan, November 17, 1983.

The Making of a Recovery: Consumers Strut the "Right Stuff"

Richard T. Curtin
Director, Surveys of Consumers
Survey Research Center
The University of Michigan

Widespread Optimism

In the third quarter 1983 survey, the Index of Consumer Sentiment was 91.6, just above the 91.5 recorded one quarter earlier, and the highest quarterly reading since the cyclical peak of 94.4 was recorded in 1972. The recent substantial improvement in consumer sentiment has broken the pattern of increasingly lower cyclical peaks that had been recorded since the all-time record level was set in 1965 see Chart 1). The recovery in consumer sentiment has been wide-ranging, covering attitudes toward personal finances, business, and market conditions; and the sentiment recovery has been broadly based, occurring across all regions of the country and across all age and income subgroups.

Although the overall level of consumer sentiment has remained unchanged during the past six months, small improvements in evaluations of current economic conditions have been offset by small declines in expectations. This reflects a slowing in the expected pace of improvement in the economy as the recovery period lengthens. Overall, these small declines from peak levels do not detract from the otherwise very favorable levels of consumer attitudes and expectations.

Distinctive Pattern of Recovery

The current recovery in consumer attitudes began more than three years ago, when the all-time record low of 54.4 was recorded in the

Index of Consumer Sentiment. The 1980 low was record-setting due to a combination of unfavorable developments: the majority of consumers at that time expected double-digit inflation, two-thirds expected increases in unemployment, and high interest rates led the majority to view buying conditions unfavorably. Inflation expectations have declined steadily since then, and by a substantial amount. The cumulative declines in inflation expectations have had a persistent and significant impact on consumers' expectations for both their personal financial situation and the economy as a whole, partially softening the adverse impact from the renewed economic downturn starting in mid-1981.

In contrast to the uninterrupted three-year decline in inflation expectations, unemployment expectations improved following the 1980 low point, but the improvement was quickly reversed in 1981. Unemployment expectations again improved starting in the last half of 1982 and have been the primary factor underlying the rapid rise in consumer optimism in the first half of 1983. That consumer attitudes benefit from declines in inflation before declines in unemployment is typical of past recovery periods.

The distinctive aspect of this recovery is that expected trends in inflation, coupled with more volatile and higher interest rate expectations, have begun to restructure consumer attitudes toward market buying conditions. During the 1970s, consumers found the most important source of variability in buying conditions to be changes in product prices, and they frequently adopted buy-in-advance rationales in response to expected price increases. This response predominated at that time because interest rates charged on consumer loans were largely unresponsive to changes in the expected rate of inflation. The "buy-in-

advance psychology" which developed represented a significant restructuring of buying attitudes from the 1950s and early 1960s. Since 1980, consumers have viewed interest rates charged on consumer loans, rather than inflation, to be the most important source of expected variability in market buying conditions.

Before describing in detail these recent developments, I want to first introduce a secondary theme. Much has been said and written about the relationship between trends in consumer attitudes and expectations, and trends in the corresponding objective measures of the macro economy. Some observers have postulated that consumer attitudes have little or no correspondence with macro economic developments, due to insufficient information, lack of understanding of the macro economy, or little motivation on the part of the consumer. In order to explore this issue, I have included along with the data on recent trends in attitudes and expectations, examples of their correspondence with objective criteria. My goal today is not to present a model and statistically test the accuracy of particular attitudes and expectations, but to indicate the general relationships across several of these measures. The data indicate a substantial correspondence between objective and subjective measures, which underscores the sensitivity of consumer attitudes and expectations to ongoing developments in the economy. Of course, attitudinal data is not meant to simply replicate or replace other measures of economy activity, but to supplement and enhance our understanding of why changes in consumer behavior have occurred, and whether these underlying factors can be expected to continue to shape consumer responses in the future.

Rapid Pace of Recovery
Expected to Moderate

Why have consumers now become so optimistic about prospects for the economy? After all, by the start of 1983, consumers had experienced more than three years of economic adversity: rising and then double-digit inflation, followed by record high interest rates and double-digit unemployment rates. Because of this prolonged period of economic adversity, consumers became increasingly habituated to news of unfavorable economic developments. Consumer reaction to news of each additional unfavorable development declines with habituation, unless the development represents a significant and unexpected further deterioration in the economy. Just as attention to news of unfavorable developments falls with habituation, attention to news of favorable development is thereby increased. When the economy began to recover in 1983, habituation helped minimize the importance of ongoing unfavorable economic trends and helped magnify the importance of news of favorable developments. In addition, the favorable developments reported by consumers in 1983 were widely expected, as measured by earlier surveys, and this also acted to focus perceptions on favorable developments. As a result, by mid-1983 the consumer surveys established a new all-time record level of favorable perceptions of recent changes in the economy, as shown in Chart 2.

Current Business Conditions. Reports that overall business conditions had improved during the past year were given by 63 percent of all families in the third quarter 1983 survey, a higher proportion than recorded following any of the prior six recessions during the past 30 years (Chart 3). Initially the pace of improvement was rapid, with the proportion of families reporting improved business conditions doubling

in each of the first two quarters of 1983 (from 14 to 27 to 59 percent). Only a small additional increase was recorded in the 1983:3 survey in favorable evaluations of current business conditions (to 63 percent). Cyclical trends in consumer evaluations of current business conditions have shown a close correspondence with the actual trend in the percentage change in the Gross National Product, in constant dollars. The two variables shown in Chart 4 had a time-series correlation of 0.85.

The major factor that led to the sharp increase in favorable reports of economic developments during 1983 was improved job prospects. References to news heard of increases in employment rose from 6 percent to 27 percent during the past year, while references to increases in unemployment fell to 14 percent in the third quarter 1983 survey from the all-time record of 52 percent recorded one year earlier (Chart 5). The correspondence of the frequency of reports of unemployment increases and the aggregate unemployment rate is shown in Chart 6, exhibiting a time-series correlation of 0.66. The process of habituation is reflected by the rapidly falling proportion of consumers that reported hearing news of unemployment immediately following the cyclical peaks in the actual unemployment rate.

Expected Business Conditions. Consumers remained very optimistic about the future course of the economy, but their responses indicated that a slower rate of improvement was also expected (Chart 7). Among all families, 47 percent expected business conditions to improve during the year ahead, just below the all-time record level of 52 percent recorded in the second quarter. Only 9 percent of all families expected a worsening economy during the year ahead. Longer-term

business expectations have also improved during the past year, but to a lesser extent (Chart 8). Among all families, 38 percent expected good times financially during the next five years in the economy as a whole, just below the 39 percent recorded in the second quarter but above the 24 percent recorded one year earlier. Although improvement in inflation and unemployment has prompted record levels of short-term optimism, it is the expected persistence of relatively high levels of unemployment and inflation, as well as interest rates, that has limited the growth in favorable economic prospects over the longer term.

Inflation. Declines in the rate of inflation have had the most pervasive and sustained impact on consumer sentiment during the past few years. By the start of 1983, consumer price expectations had posted consecutive declines over the prior three years, falling from a peak rate of nearly 12% in early 1980 to less than 5% in 1983. Since the start of 1983, the expected annual inflation rate rose slightly, to 4.9% in the third quarter, from 4.3% in the first quarter. The trend in consumer price expectations in shown in Chart 9, and the correspondence of this survey measure with the official Consumer Price Index (CPI-u) is shown in Chart 10. Although the survey measure asks about expected future changes in prices, the highest times series correlation was 0.88, without incorporating any lead time.

Unemployment. Unemployment expectations improved substantially during the past year, and are now near record favorable levels (Chart 11). Twice as many families expected unemployment to decline as to increase during the year ahead in the 1983:3 survey (39 versus 16 percent), largely unchanged from one quarter earlier but nearly the reverse of the negative balance recorded one year earlier (17 versus 46

in each of the first two quarters of 1983 (from 14 to 27 to 59 percent). Only a small additional increase was recorded in the 1983:3 survey in favorable evaluations of current business conditions (to 63 percent). Cyclical trends in consumer evaluations of current business conditions have shown a close correspondence with the actual trend in the percentage change in the Gross National Product, in constant dollars. The two variables shown in Chart 4 had a time-series correlation of 0.85.

The major factor that led to the sharp increase in favorable reports of economic developments during 1983 was improved job prospects. References to news heard of increases in employment rose from 6 percent to 27 percent during the past year, while references to increases in unemployment fell to 14 percent in the third quarter 1983 survey from the all-time record of 52 percent recorded one year earlier (Chart 5). The correspondence of the frequency of reports of unemployment increases and the aggregate unemployment rate is shown in Chart 6, exhibiting a time-series correlation of 0.66. The process of habituation is reflected by the rapidly falling proportion of consumers that reported hearing news of unemployment immediately following the cyclical peaks in the actual unemployment rate.

Expected Business Conditions. Consumers remained very optimistic about the future course of the economy, but their responses indicated that a slower rate of improvement was also expected (Chart 7). Among all families, 47 percent expected business conditions to improve during the year ahead, just below the all-time record level of 52 percent recorded in the second quarter. Only 9 percent of all families expected a worsening economy during the year ahead. Longer-term

business expectations have also improved during the past year, but to a lesser extent (Chart 8). Among all families, 38 percent expected good times financially during the next five years in the economy as a whole, just below the 39 percent recorded in the second quarter but above the 24 percent recorded one year earlier. Although improvement in inflation and unemployment has prompted record levels of short-term optimism, it is the expected persistence of relatively high levels of unemployment and inflation, as well as interest rates, that has limited the growth in favorable economic prospects over the longer term.

Inflation. Declines in the rate of inflation have had the most pervasive and sustained impact on consumer sentiment during the past few years. By the start of 1983, consumer price expectations had posted consecutive declines over the prior three years, falling from a peak rate of nearly 12% in early 1980 to less than 5% in 1983. Since the start of 1983, the expected annual inflation rate rose slightly, to 4.9% in the third quarter, from 4.3% in the first quarter. The trend in consumer price expectations in shown in Chart 9, and the correspondence of this survey measure with the official Consumer Price Index (CPI-u) is shown in Chart 10. Although the survey measure asks about expected future changes in prices, the highest times series correlation was 0.88, without incorporating any lead time.

Unemployment. Unemployment expectations improved substantially during the past year, and are now near record favorable levels (Chart 11). Twice as many families expected unemployment to decline as to increase during the year ahead in the 1983:3 survey (39 versus 16 percent), largely unchanged from one quarter earlier but nearly the reverse of the negative balance recorded one year earlier (17 versus 46

percent). The survey question used to measure unemployment expectations only asks the respondent whether unemployment will rise, remain unchanged, or decline during the year ahead, not the expected rate of unemployment. In order to measure the corresponding change at the aggregate level, the percentage point change from the prior year in the unemployment rate was used as the objective indicator. The highest times series correspondence was achieved with the survey measure of unemployment expectations led three quarters, with a time-series correlation of 0.77, as shown in Chart 12.

Interest Rates. The expected moderation in the pace of recovery also reflects rising concern with interest rates (Chart 13). Increases in interest rates were expected during the year ahead by 44 percent of all households in the third quarter 1983 survey, about twice the proportion recorded in each of the prior four quarterly surveys. Declines in interest rates were expected by only 19 percent of all households, down from 31 percent one quarter earlier and 40 percent one year earlier. This growing concern has left interest rate expectations less favorable than at any other time during the preceding two years.

Like unemployment expectations, the survey measure of interest rate expectations only asks respondents about the direction of expected change. Unlike for unemployment and inflation, there is no clear choice of an objective indicator that corresponds with the questionnaire reference to "interest rates for borrowing money." For this presentation, the widely publicized, but seldom charged, prime rate was selected. In Chart 14, the time-series correspondence between consumer interest rate expectations and the annual percentage point change in the prime rate, with a lead time of two quarters, was 0.82.

Confidence in government economic policies to reduce unemployment and inflation improved significantly by the fall of 1983, nearly reversing the entire deterioration in confidence recorded during the past two years (Chart 15). Among all families, 27 percent rated government economic policies favorably in the third quarter 1983 survey, up from 18 percent one year earlier and just below the 30 percent recorded two years earlier--the highest level recorded since President Reagan entered office. Unfavorable evaluations were less frequent, held by 22 percent of all families in the 1983:3 survey, down from 33 percent one year earlier and just above the 21 percent recorded two years earlier.

Favorable Buying Attitudes

Consumer attitudes toward market conditions for the purchase of cars and houses reached record favorable levels by mid 1983, with nearly two-thirds of all American families reporting that buying conditions were favorable for purchases of houses, cars and large household durables. The substantial improvement in buying attitudes has been due to the combination of two factors which have not previously dominated recoveries in consumer buying attitudes: lower prices and lower interest rates.

Household Durables. Favorable attitudes toward buying conditions for large household durables were held by 65 percent of all families in the third quarter 1983 survey, substantially above the 44 percent recorded one year earlier (Chart 16). When asked to explain their views on buying conditions for household durables, progressively fewer consumers complained about high interest rates thusfar during 1983 (Chart 17). In addition, perceptions of market prices for household

durables have become increasingly favorable during the past few years, as shown in Chart 18. Throughout 1983, consumers have more frequently mentioned the availability and appeal of lower prices than in any of the prior 20 years (Chart 18).

Houses. Rising concern with mortgage interest rates have caused attitudes toward market conditions for houses to recede slightly from the record favorable levels recorded in the second quarter 1983 survey (chart 19). The pace as well as the extent of improvement recorded during the past year has set new records. The proportion of families giving favorable evaluations of buying conditions for houses rose from just 21 percent in the third quarter of 1982 to the record high of 64 percent in the second quarter 1983, and subsequently declined slightly to 58 percent in the third quarter 1983 survey. The relationship between house buying attitudes and total unit sales of new and existing houses is shown in Chart 20. The time-series correlation coefficient was highest--0.79--when attitudes were led two quarters.

The major reasons given by consumers for this abrupt turnaround in house buying attitudes were lower mortgage rates and lower housing prices. From mid 1982 to mid 1983, complaints of high mortgage rates fell from 74 to 23 percent, and then rose slightly to 28 percent in the third quarter 1983 survey, marking the first quarterly rise in references to high mortgage rates in more than a year (Chart 21). References to the availability of lower mortgage rates rose from 6 to 57 percent from mid 1982 to mid 1983, and then fell to 47 percent in the third quarter. Despite the small reversals, overall attitudes toward market conditions for houses have remained at favorable levels. On balance, more families continued to cite lower rather than higher

mortgage rates in the third quarter survey. In addition, families mentioned the availability of lower housing prices more frequently than high housing prices in 1983, the most favorable perceptions of market prices for housing during the past 20 years (Chart 22).

Vehicles. Attitudes toward market conditions for cars have also remained largely unchanged at very favorable levels, and, like house buying attitudes, further upward momentum has been halted by concerns with rising interest rates (Chart 23). Among all families, 64 percent thought that buying conditions for automobiles were favorable in the third quarter 1983 survey, just below the peak of 65 percent recorded in the second quarter but substantially above the 37 percent recorded one year earlier. The correspondence of trends in attitudes toward car buying conditions and actual unit sales of passenger cars is shown in Chart 24. The highest bivariate correlation was 0.60, achieved with a two quarter lead time.

The proportion of families that mentioned the availability of lower interest rates on vehicle loans was 33 percent in the third quarter 1983 survey, down from 40 percent one quarter earlier but well above the 7 percent recorded one year earlier (Chart 25). In addition, the third quarter survey recorded the lowest number of consumers complaining about high car prices in more than five years: 18 percent, down from 30 percent one year earlier (Chart 26). The awareness of price discounts and rebates was mentioned by 26 percent of all families in the third quarter, unchanged from one quarter and one year earlier.

Interest Rate Psychology. The last cyclical peak in favorable attitudes toward buying conditions for houses was recorded in the second quarter of 1977, when 63 percent of all families rated house

buying conditions favorably. At that time, the major reason given for favorable house buying attitudes involved buy-in-advance price rationales, reported by 47 percent of all families. In sharp contrast, in the second quarter 1983 survey, just 7 percent of all families mentioned buy-in-advance price rationales. In 1977, more families referred to high rather than low housing prices, while at the 1983 peak low rather than high prices were more frequently mentioned. As shown in Table A, just as favorable buying attitudes in 1977 and 1978 were dominated by buy-in-advance price rationales, favorable house and car buying attitudes in 1983 were dominated by the appeal of lower prices and lower interest rates.

Personal Finances Improve

The financial situation of American families improved substantially during the past year. In the second and third quarter 1983 surveys, more families reported that their financial situation had improved rather than worsened during the past year, in sharp contrast to the prior three years when unfavorable evaluations predominated (Chart 27). The correspondence between consumers' evaluations of their current financial situation and the annual percentage change in real income per household is shown in Chart 28, and exhibits a time-series correlation of 0.72.

While the improvement in the financial situation of households since 1982 has been substantial, the 1982 level itself already incorporated improvements from the record 1980 lowpoint. The underlying reason for this longer-term improvement in evaluations of personal finances has been the declining rate of inflation. In the third quarter 1983 survey, just 16 percent of all families mentioned the adverse

impact of inflation on family finances, down from 28 percent one year earlier. The frequency of references to rising prices has declined steadily since 44 percent was recorded at the start of 1981, as shown in Chart 29.

Consumers remained optimistic about future changes in their personal financial situation (Chart 30). Among all families, 36 percent expected improvement in their financial situation during the year ahead in the third quarter 1983 survey, down somewhat from the peak of 40 percent in the second quarter and above the 31 percent recorded one year earlier. Just 11 percent of all families expected a worsening financial situation in the third quarter survey, up from 8 percent in the second quarter but below the 18 percent recorded one year earlier.

Compared with one year earlier, income expectations were largely unchanged in the third quarter 1983 survey, although somewhat more concentrated in the 1-5% increase range. Among all families, approximately the same proportion expected their income to remain unchanged (27 percent) or to decline (13 percent) in the third quarter survey as one year earlier. The proportion of families that expected income increases of 6% or more was 31 percent in the 1983 survey, down from 35 percent one year earlier, while the proportion of families that expected increases of 1-5% was 22 percent in the 1983:3 survey, up from 16 percent one year earlier (Chart 31).

The relative maintenance of nominal income expectations, coupled with the steep three-year decline in price expectations, has resulted in greatly improved real income expectations (Chart 32). When the expected rate of inflation reached the all time peak of 11.9% in the first quarter of 1980, only 20 percent of all families expected their income

to increase by a larger amount. By the third quarter of 1983, when the expected inflation rate was 4.9%, a full 42 percent expected higher family income increases.

Improved Personal Finances Support Spending Plans

In the third quarter 1983 survey, consumers reported an increased readiness to draw on savings and to incur new debt in order to finance major new purchases (Table B). Among all families, 27 percent reported that they were not reluctant to incur new debt, more than twice the 12 percent recorded one year earlier, and the highest level recorded during the past three years. The use of accumulated savings to make major new purchases was viewed with favor by 36 percent of all families, up from 25 percent one year earlier and 30 percent three years earlier.

The overall asset-debt balance sheet for American households has improved during the past few years. At year end 1982, households had accumulated a total of $5.4 trillion dollars in financial assets, and $1.7 trillion in liabilities. This amounts to $3.09 in financial assets for each dollar of debt, up from $2.95 in 1977 (Table C). The major reason for this improvement has been reduction in debt incurrence. As a proportion of income, debt incurrence fell from a high of 11.8% in 1978 to 4.3% in 1982, while asset accumulation only fell from 16.7% to 15.4% during the same time period. As a result the net saving rate increased sharply, rising from 4.9% to 11.1% in 1982, as shown in Chart 33.

As I have noted at prior conferences, the Federal Reserve Board's data and the savings estimates derived from the National Income and Product Accounts have grown increasingly divergent. Both the FRB and the NIA saving rates are shown in Chart 33, and the percentage point

difference in Chart 34. Not only has the divergence continued to grow, but the most recent data give opposite trend information: FRB savings rates have posted increases, while NIA rates have declined. Currently the difference at annual rates between these two estimates amounts to $117 billion, a discrepancy which is larger than the total amount of NIA personal savings--estimated at $92.3 billion in the second quarter of 1983.

Summary Outlook

The recent overall trends in consumer attitudes and expectations can be summarized rather easily: consumer sentiment is now more favorable than at any other time during the prior decade. The most favorable aspects of consumer sentiment reflect the expected direction of change in the economy, not the expected level of economic performance. The record number of consumers that expected improvement also reflects the length and depth of the past recession. Thus, while consumer optimism is near record levels, there is no evidence to suggest a consumer "boom psychology." The majority of consumers now expect improvement in their own financial situation as well as for the economy as a whole during the next year or so, but the majority do not expect these good economic times to persist uninterrupted into the longer term.

Nonetheless, the rapid improvement in consumer optimism earlier in the year together with its subsequent maintenance at favorable levels point toward robust increases in sales of vehicles, houses, and large household durables through mid-1984. In sum, consumers have again demonstrated the "right stuff" in leading the economy into recovery during 1983, and consumers can be expected to continue to pace the economic expansion during 1984.

CHART 1 - HISTORICAL SERIES
THE INDEX OF CONSUMER SENTIMENT

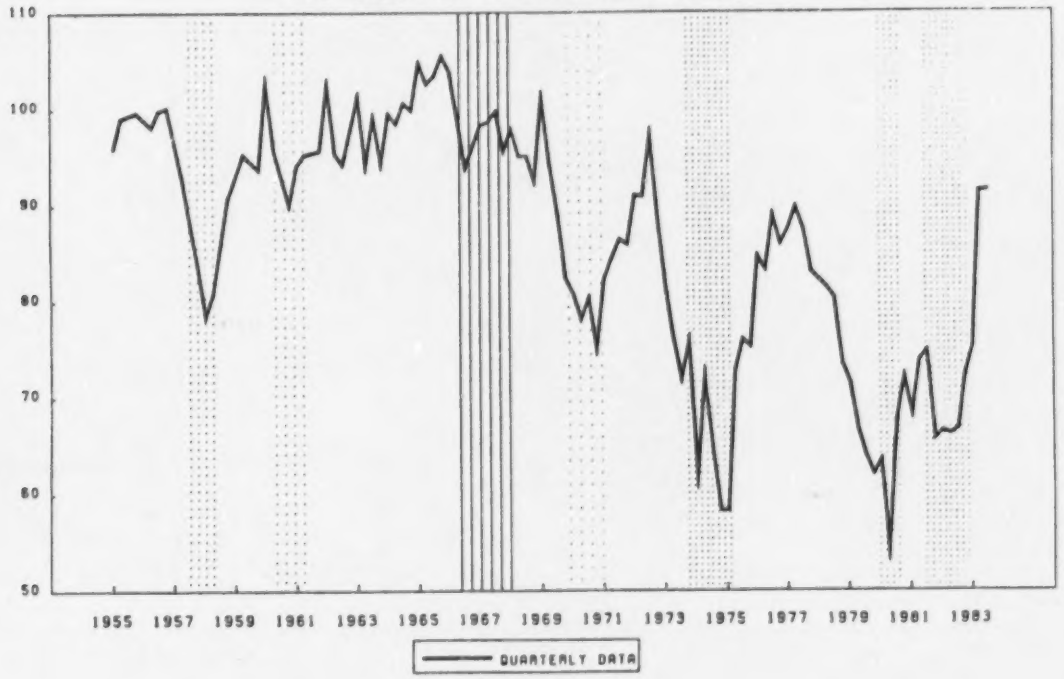

CHART 2 - HISTORICAL SERIES
NEWS HEARD OF RECENT CHANGES IN BUSINESS CONDITIONS

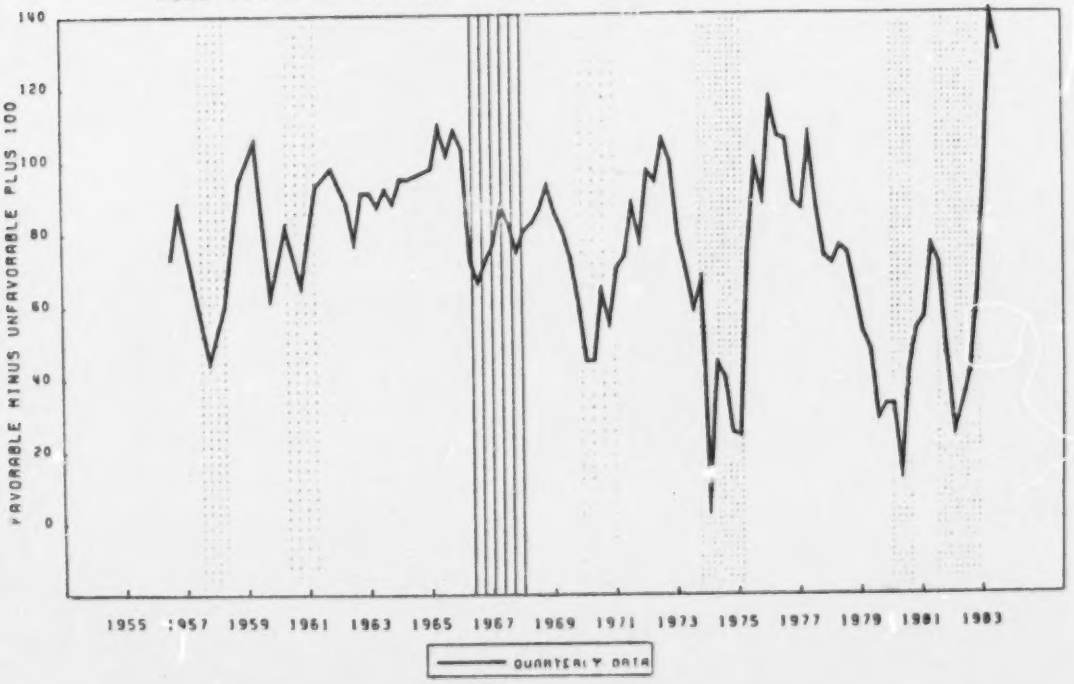

CHART 3 - HISTORICAL SERIES

CURRENT BUSINESS CONDITIONS COMPARED WITH A YEAR AGO

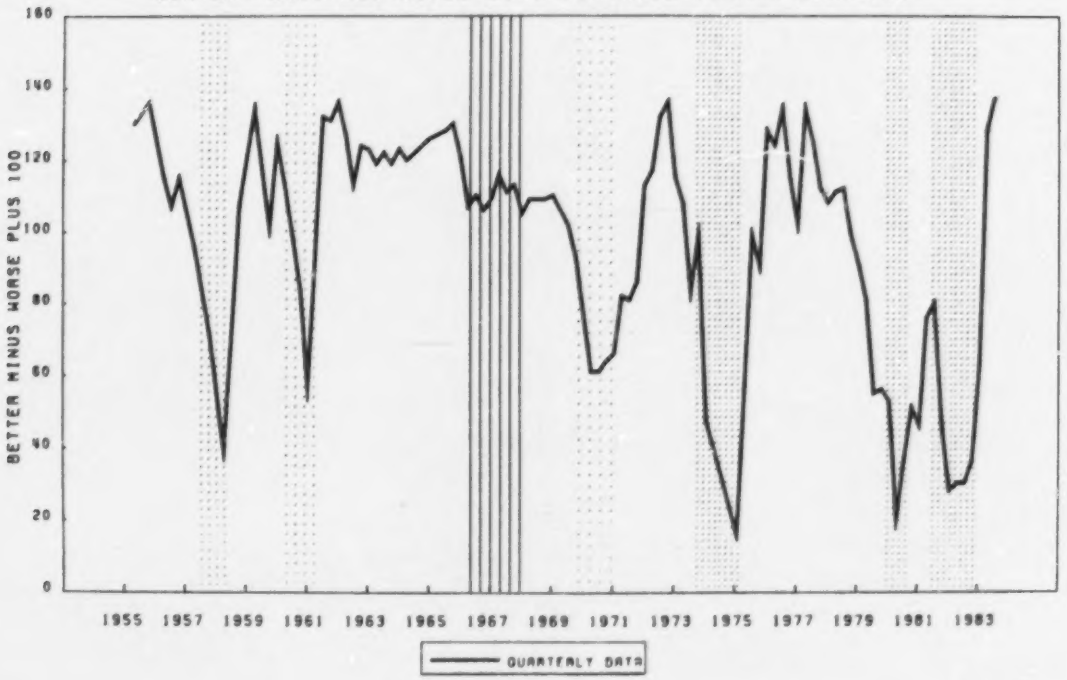

CHART 4

EVALUATIONS OF BUSINESS CONDITIONS AND THE GNP

(REAL GNP AT 4 QTR MOVING AVERAGE)

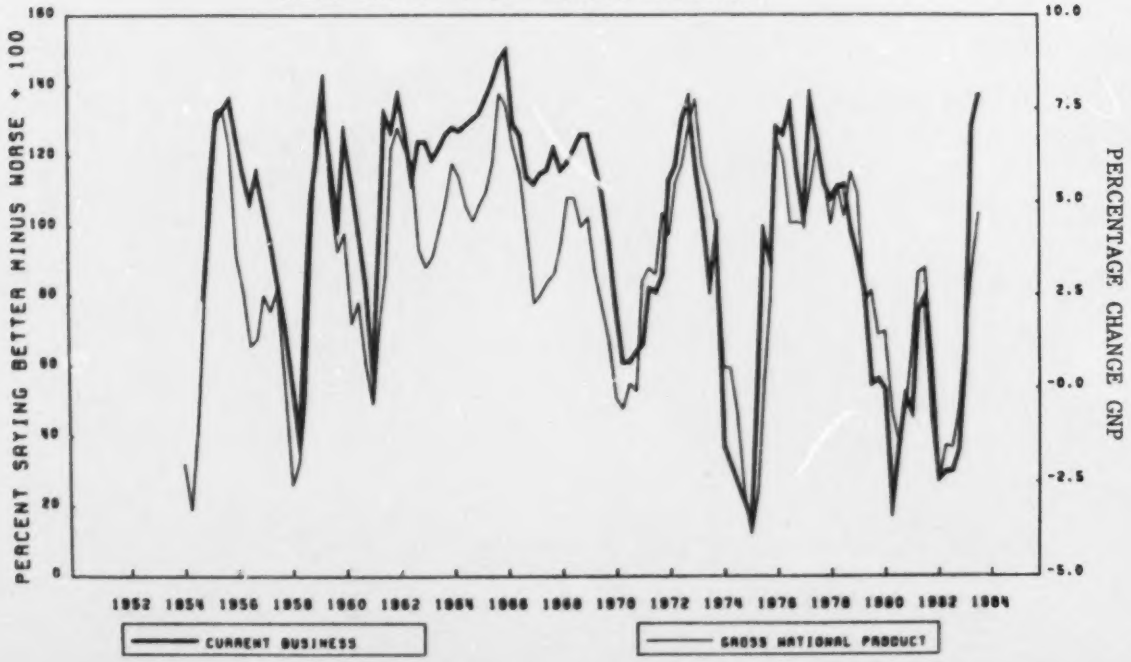

CHART 5 - HISTORICAL SERIES

TYPE OF NEWS HEARD ABOUT CHANGES IN BUSINESS CONDITIONS

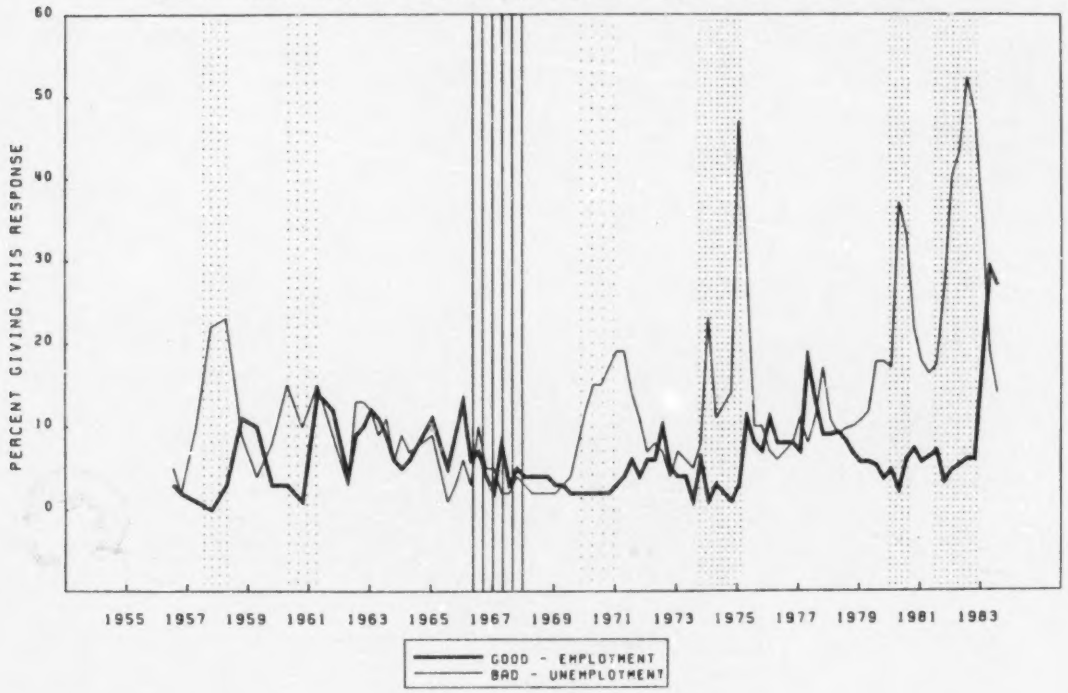

CHART 6

NEWS HEARD OF UNEMPLOYMENT AND THE UNEMPLOYMENT RATE

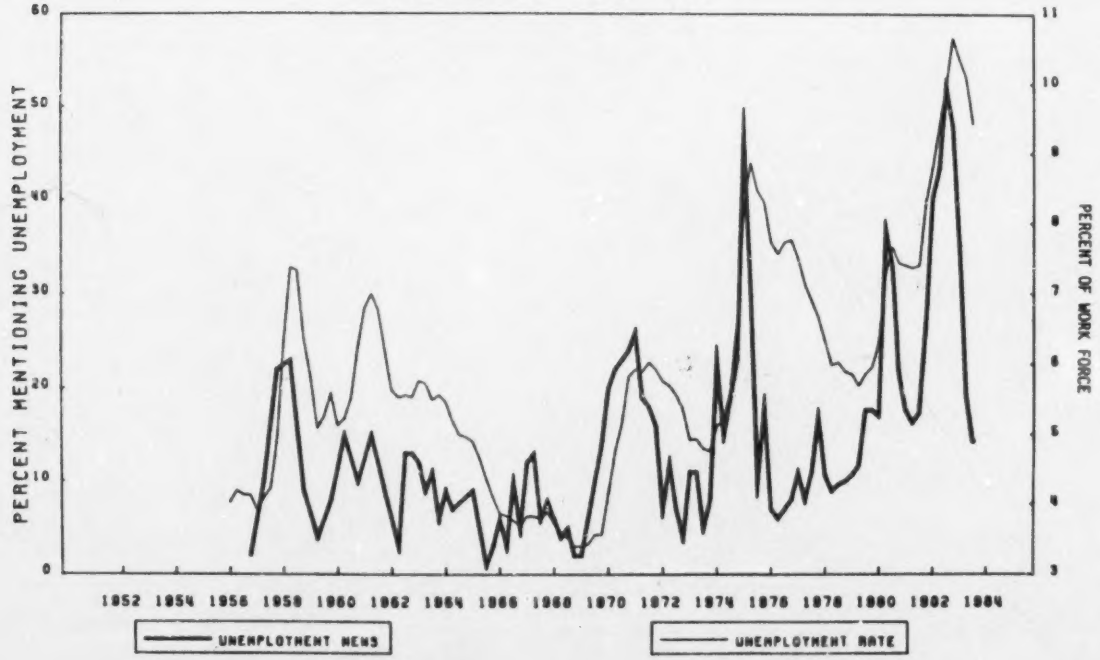

CHART 7 - HISTORICAL SERIES

EXPECTED CHANGE IN BUSINESS CONDITIONS IN A YEAR

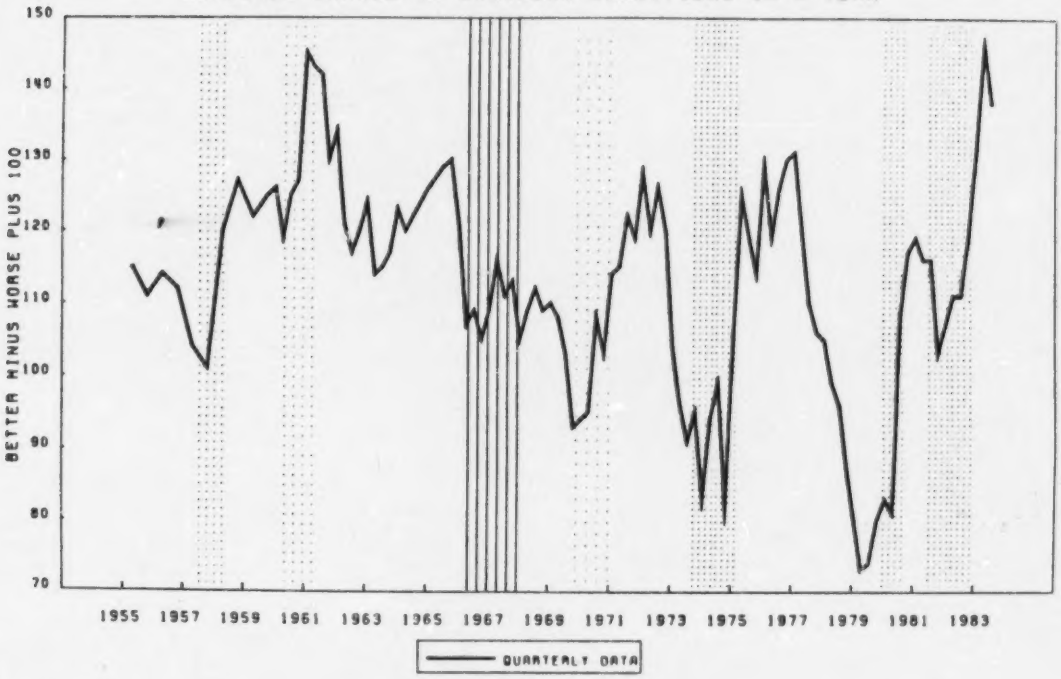

CHART 8 - HISTORICAL SERIES

BUSINESS CONDITIONS EXPECTED FOR THE NEXT FIVE YEARS

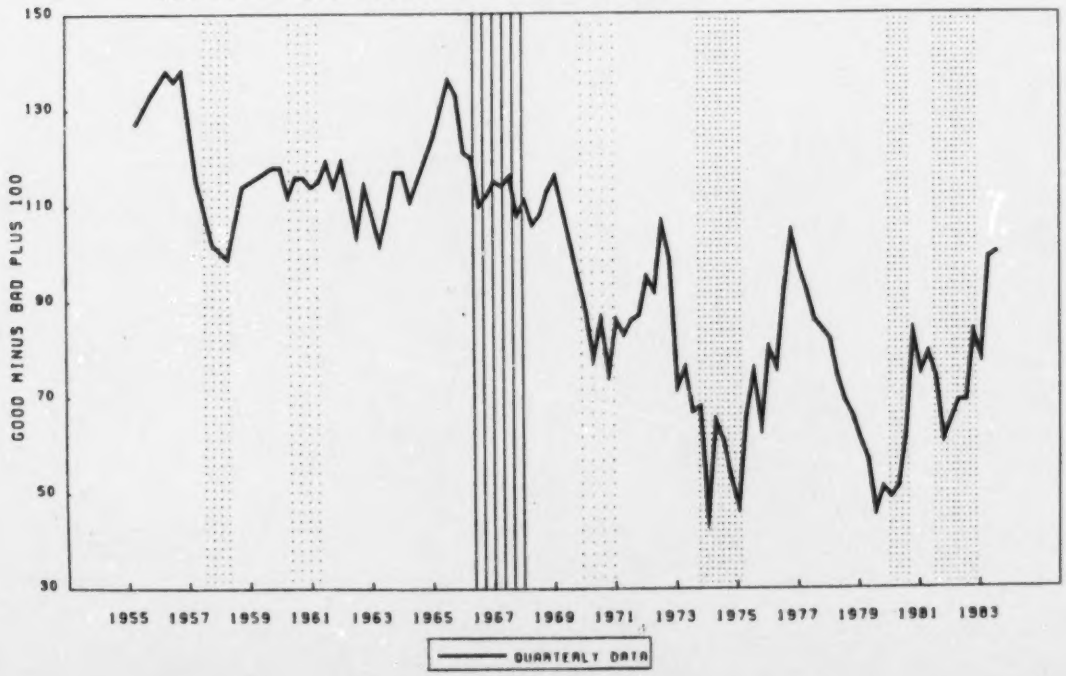

CHART 9 - HISTORICAL SERIES

MEAN EXPECTED PRICE INCREASE OVER THE NEXT 12 MONTHS

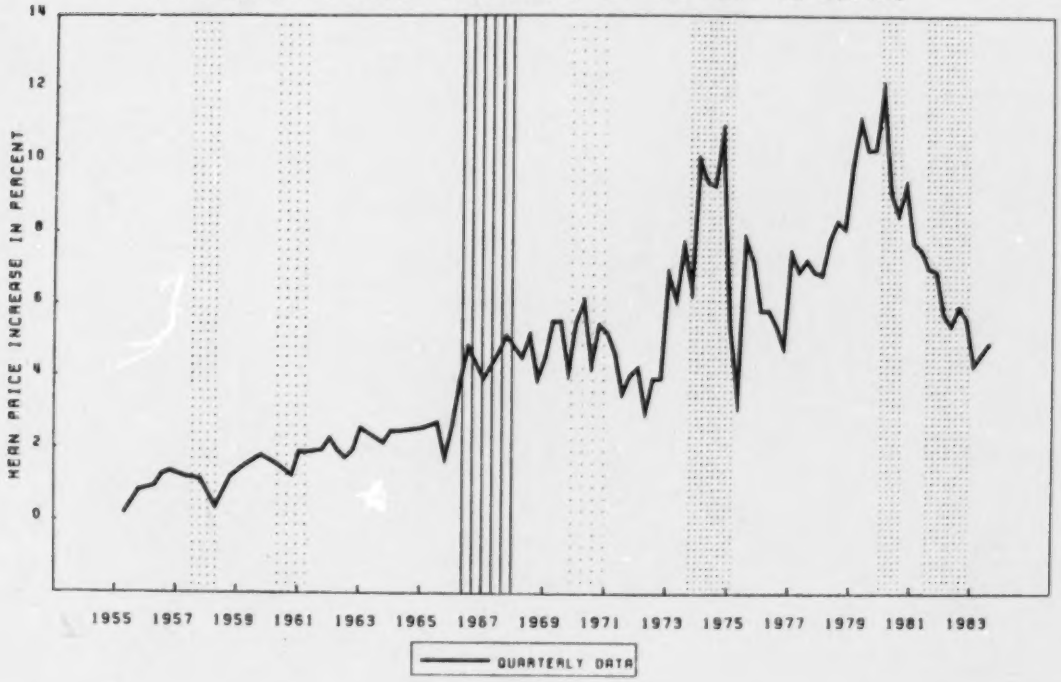

CHART 10

MEAN EXPECTED PRICE INCREASE OVER THE NEXT 12 MONTHS
AND INCREASE IN CPI, ALL URBAN CONSUMERS ALL ITEMS (SAAR)

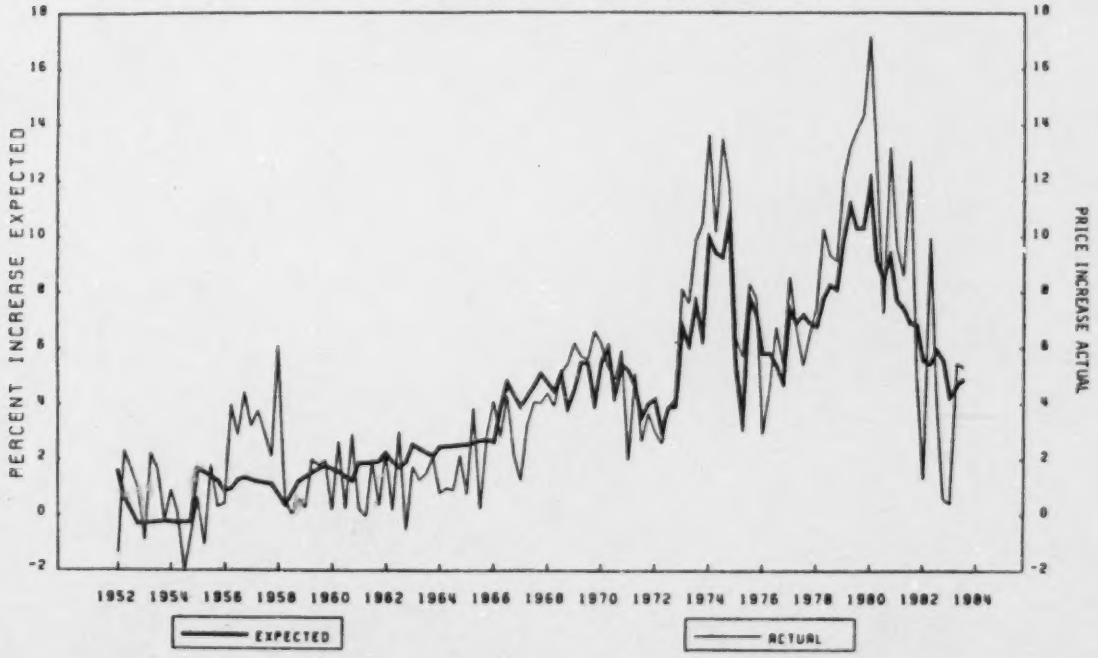

CHART 11 - HISTORICAL SERIES

EXPECTED CHANGE IN UNEMPLOYMENT

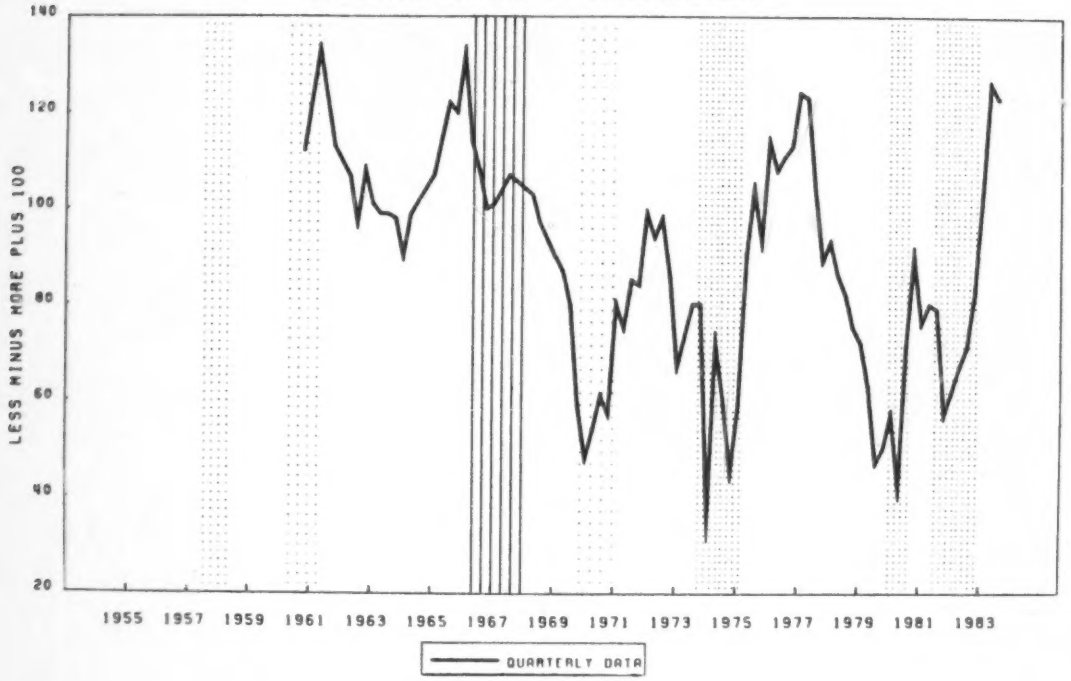

CHART 12

UNEMPLOYMENT EXPECTATIONS AND THE PERCENTAGE POINT CHANGE IN THE UNEMPLOYMENT RATE

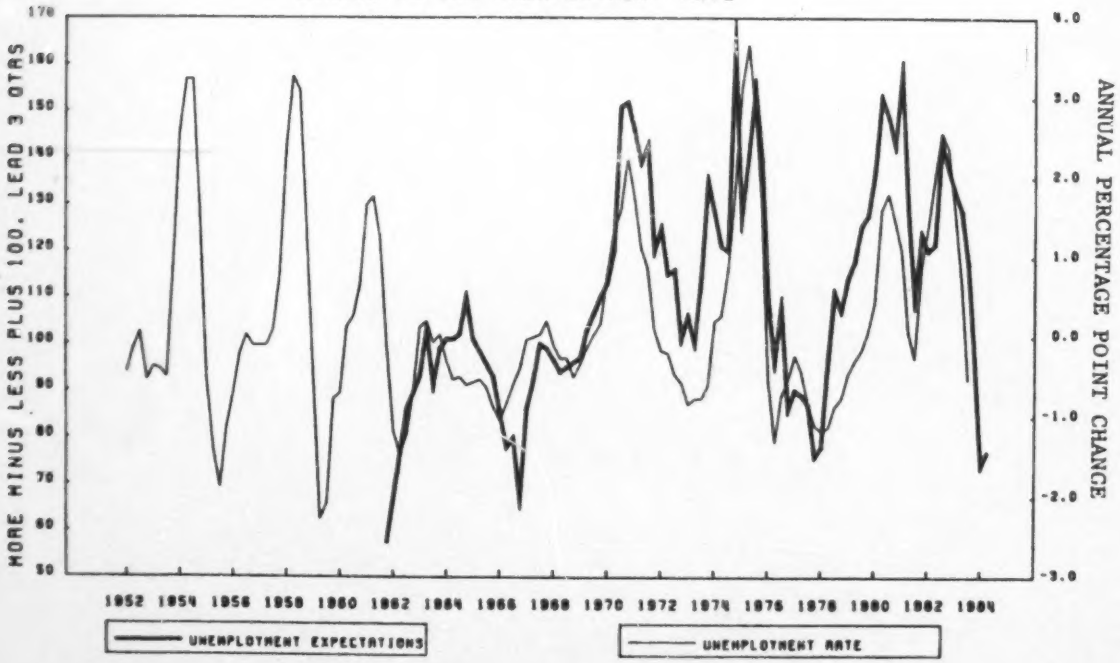

CHART 13 - HISTORICAL SERIES

EXPECTED CHANGE IN INTEREST RATES

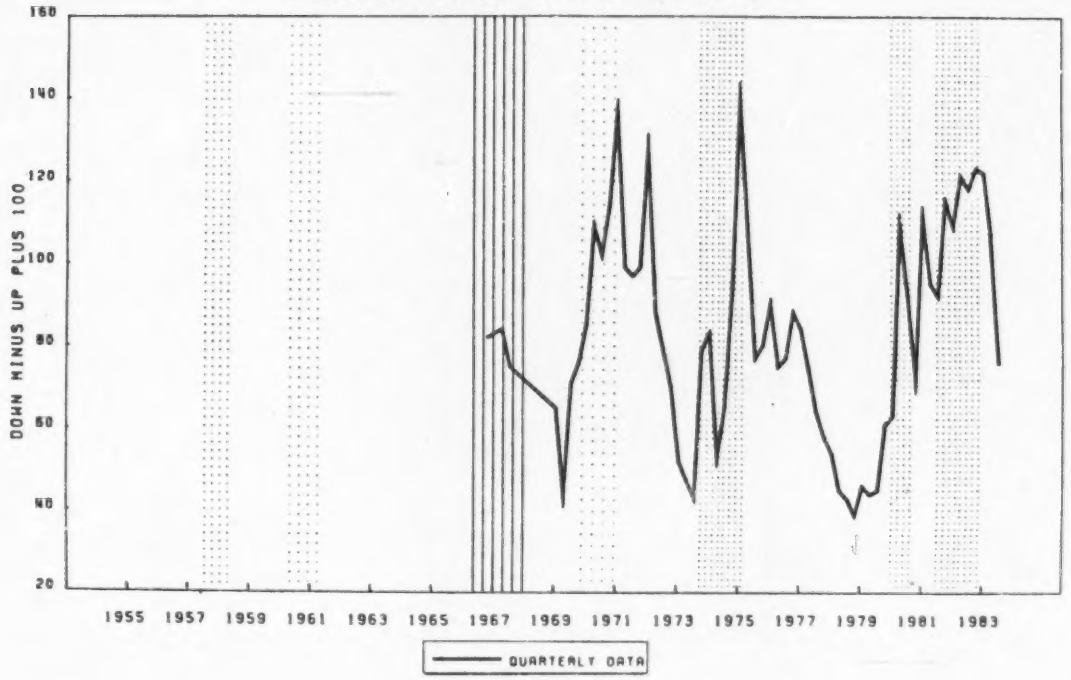

CHART 14

INTEREST RATE EXPECTATIONS AND THE

PERCENTAGE POINT CHANGE IN THE PRIME RATE

(4 Qtr Moving Averages)

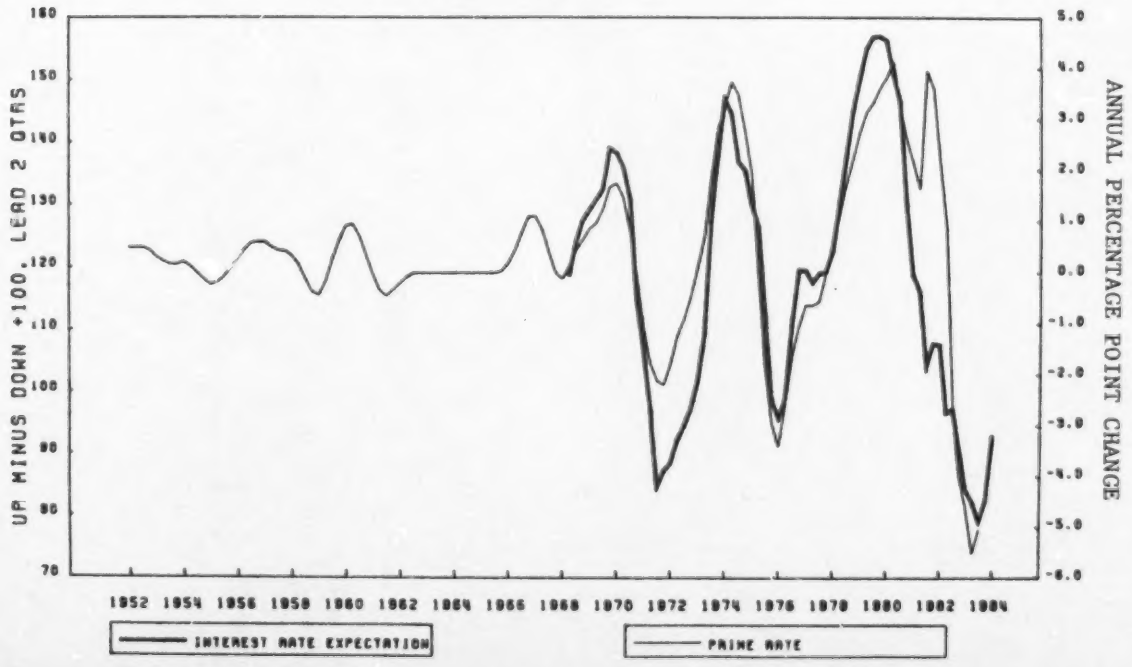

CHART 15 - HISTORICAL SERIES

OPINIONS ABOUT THE GOVERNMENT'S ECONOMIC POLICY

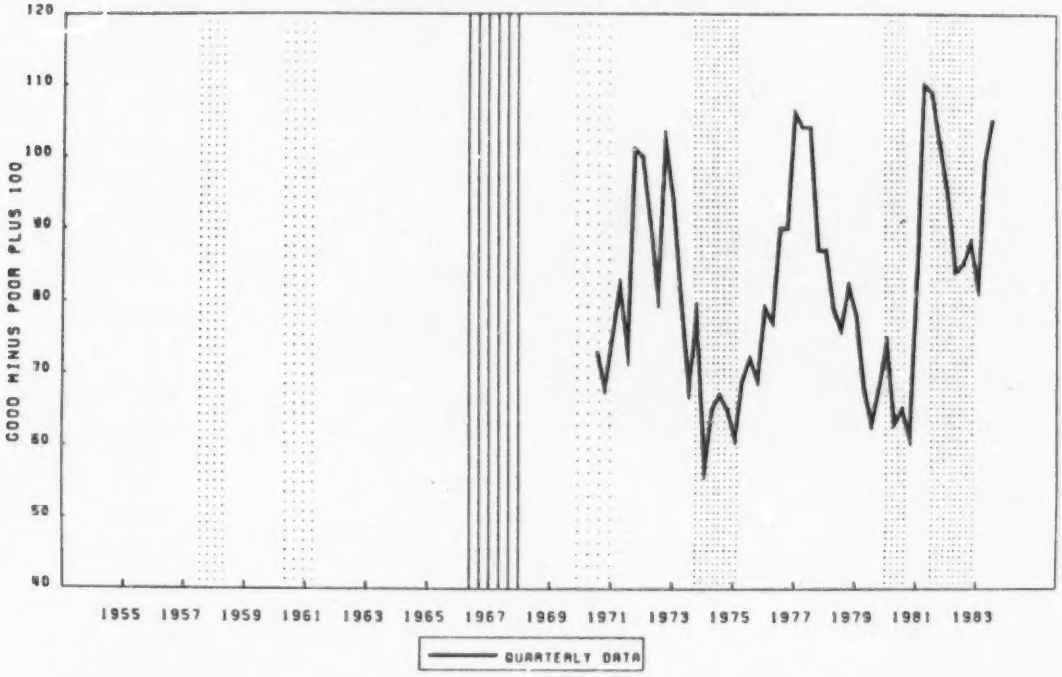

CHART 16 - HISTORICAL SERIES

BUYING CONDITIONS FOR LARGE HOUSEHOLD GOODS

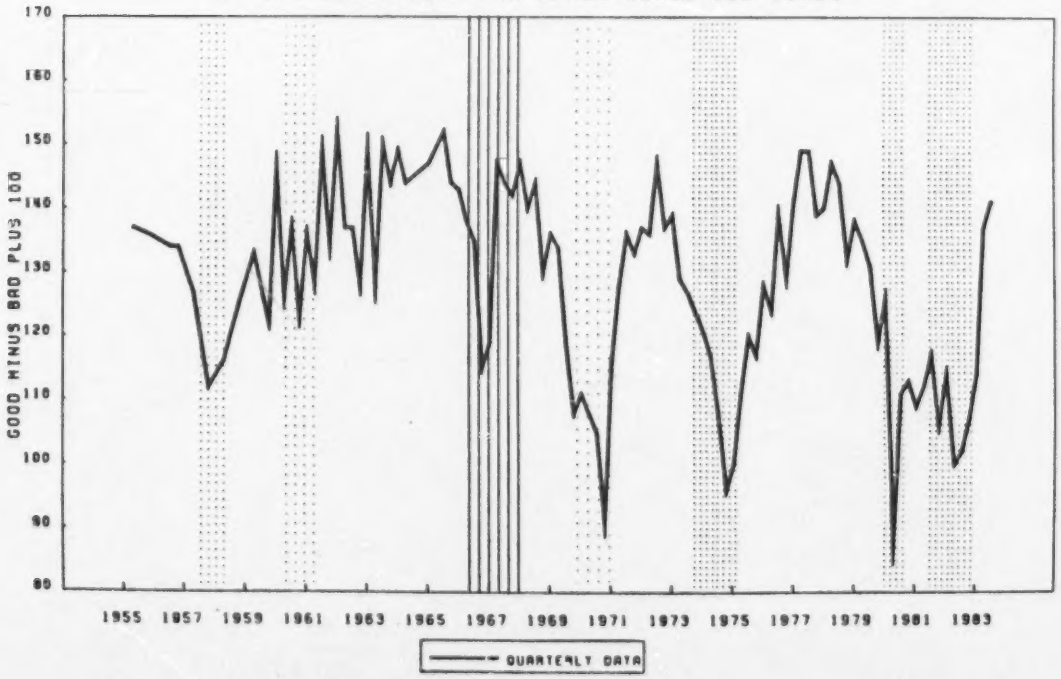

CHART 17 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

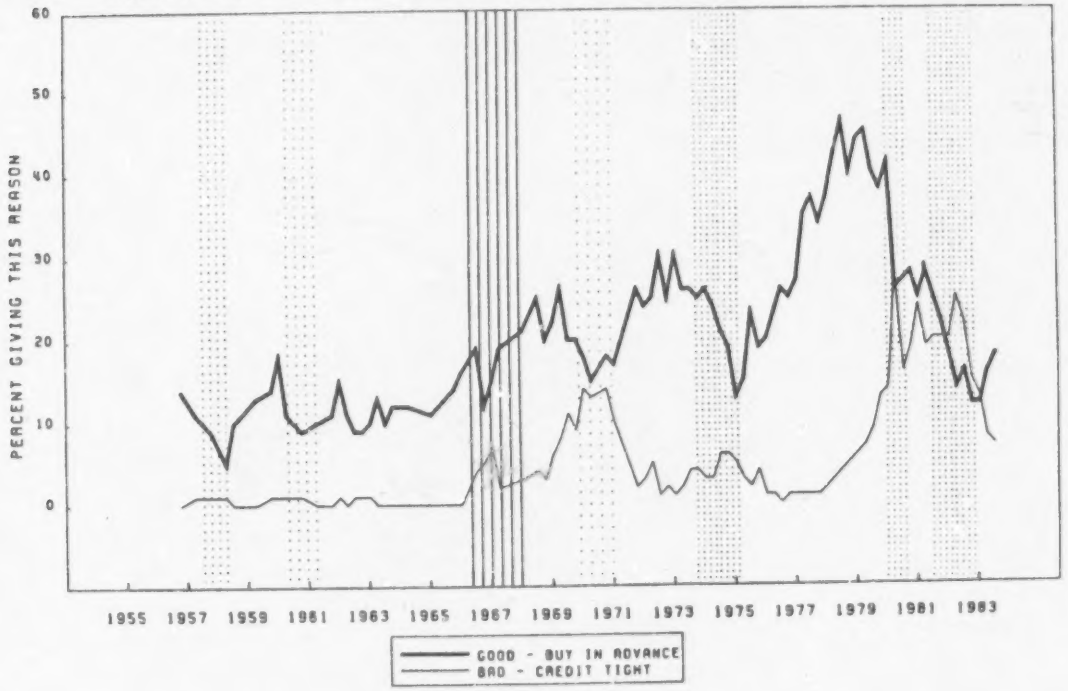

CHART 18 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

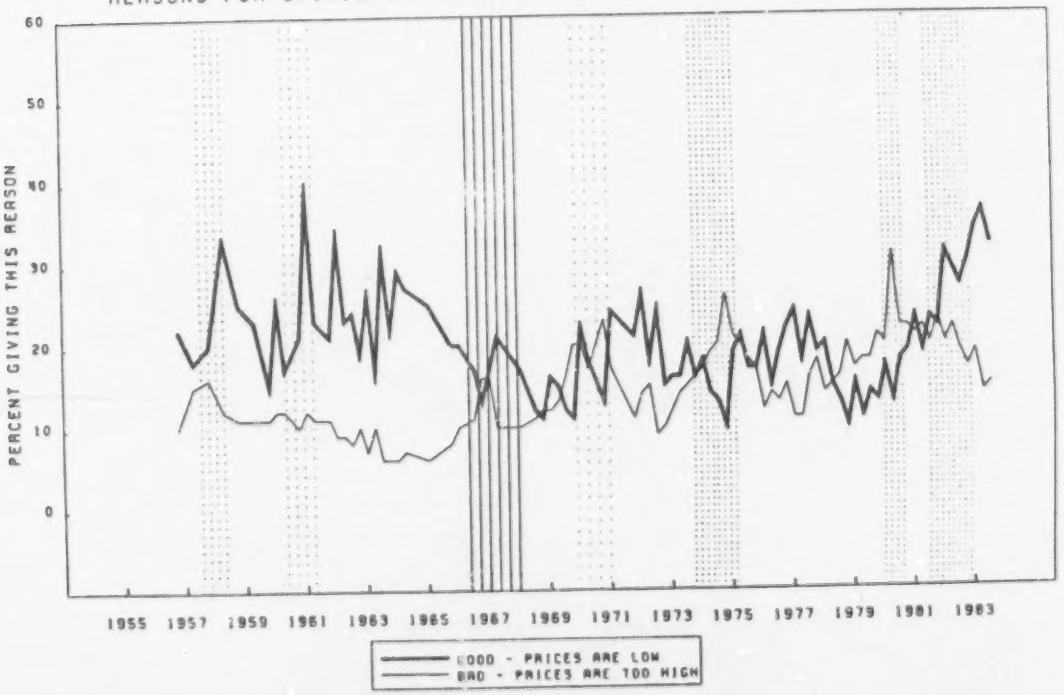

CHART 19 - HISTORICAL SERIES

BUYING CONDITIONS FOR HOUSES

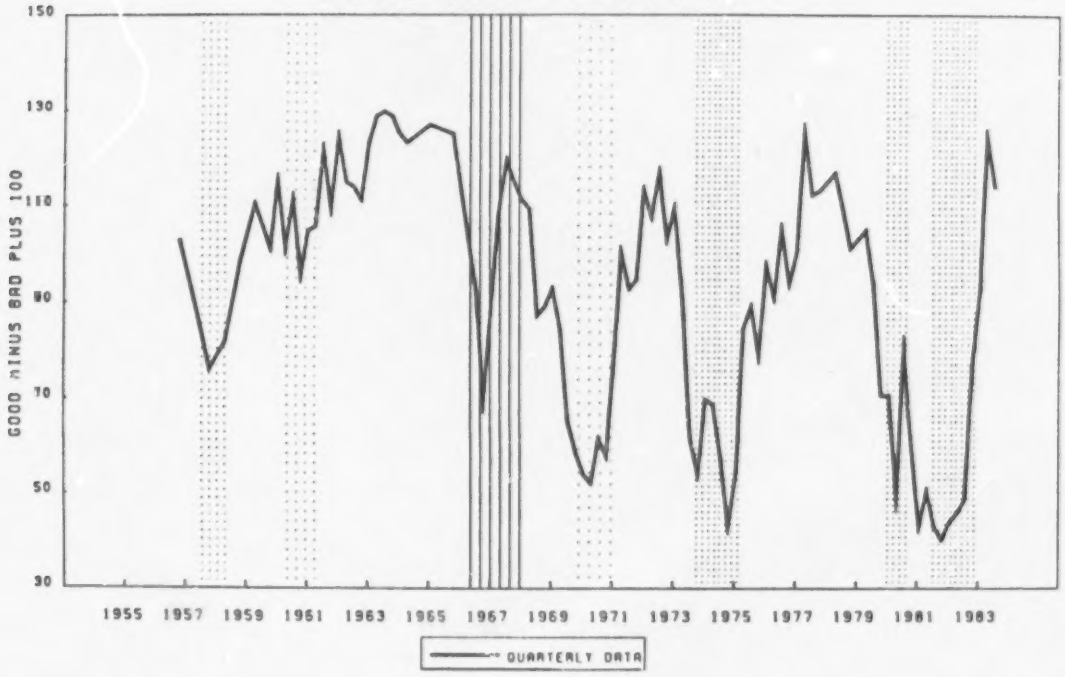

CHART 20

BUYING ATTITUDES FOR HOUSES AND TOTAL HOME SALES

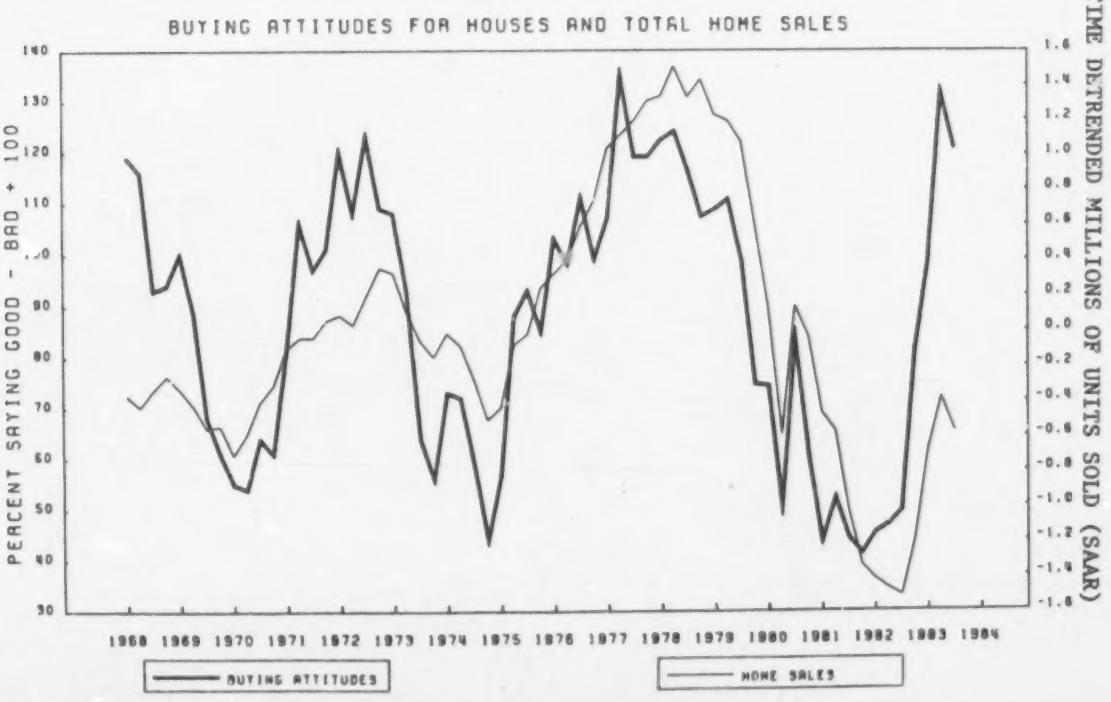

CHART 21 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

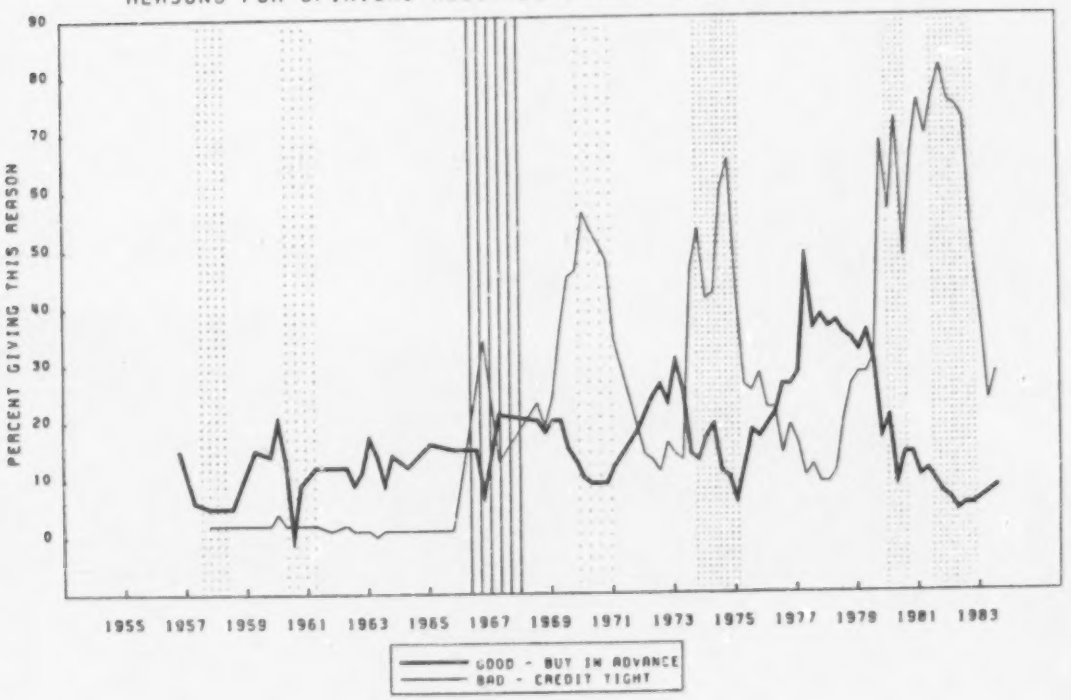

CHART 22 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

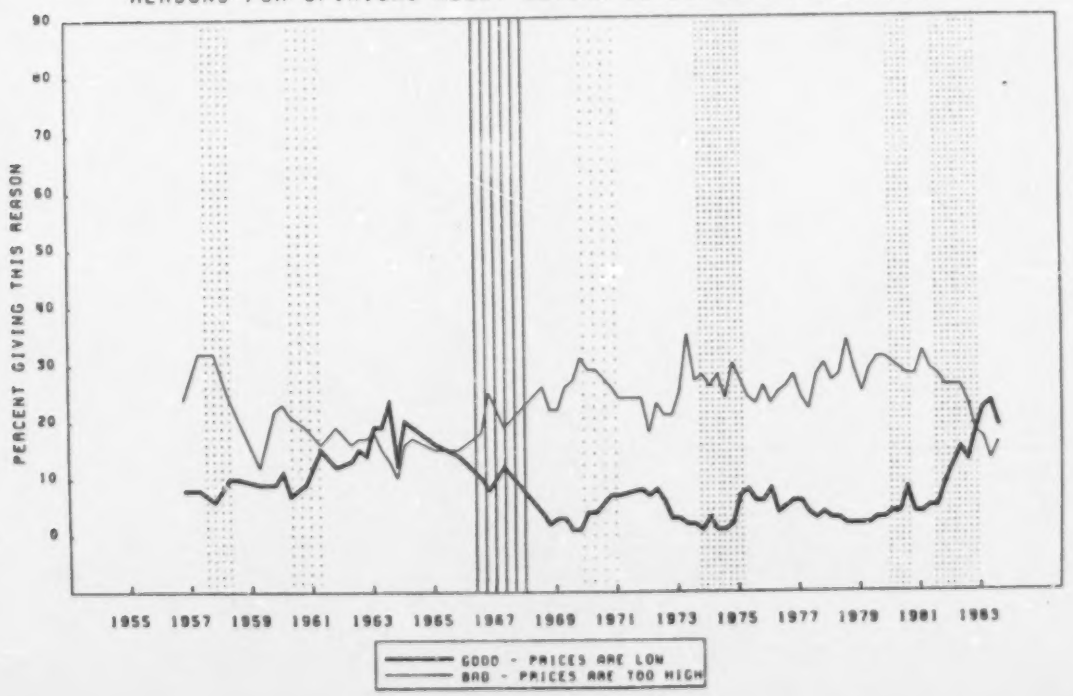

CHART 23 - HISTORICAL SERIES

BUYING CONDITIONS FOR CARS

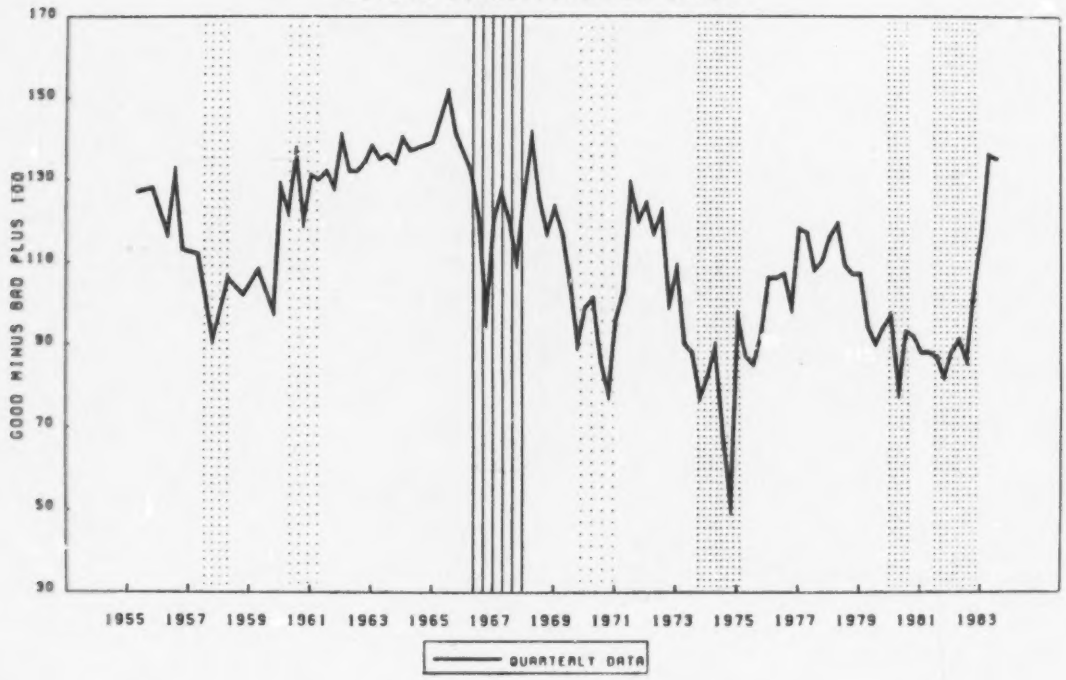

CHART 24

BUYING ATTITUDES FOR CARS AND TOTAL UNIT CAR SALES

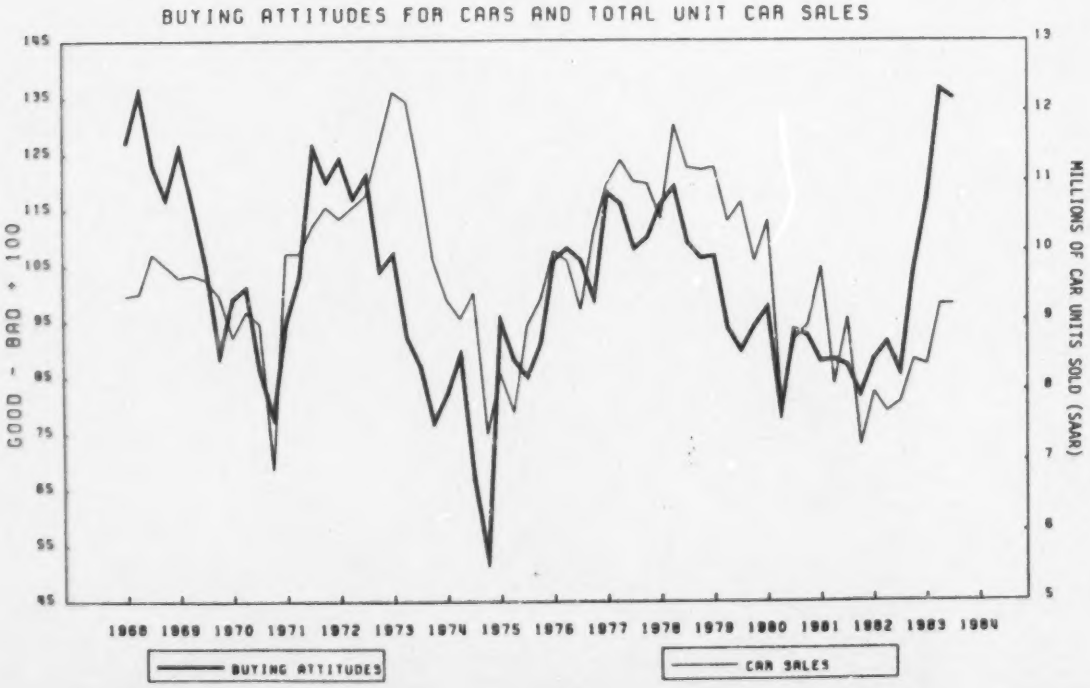

CHART 25 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

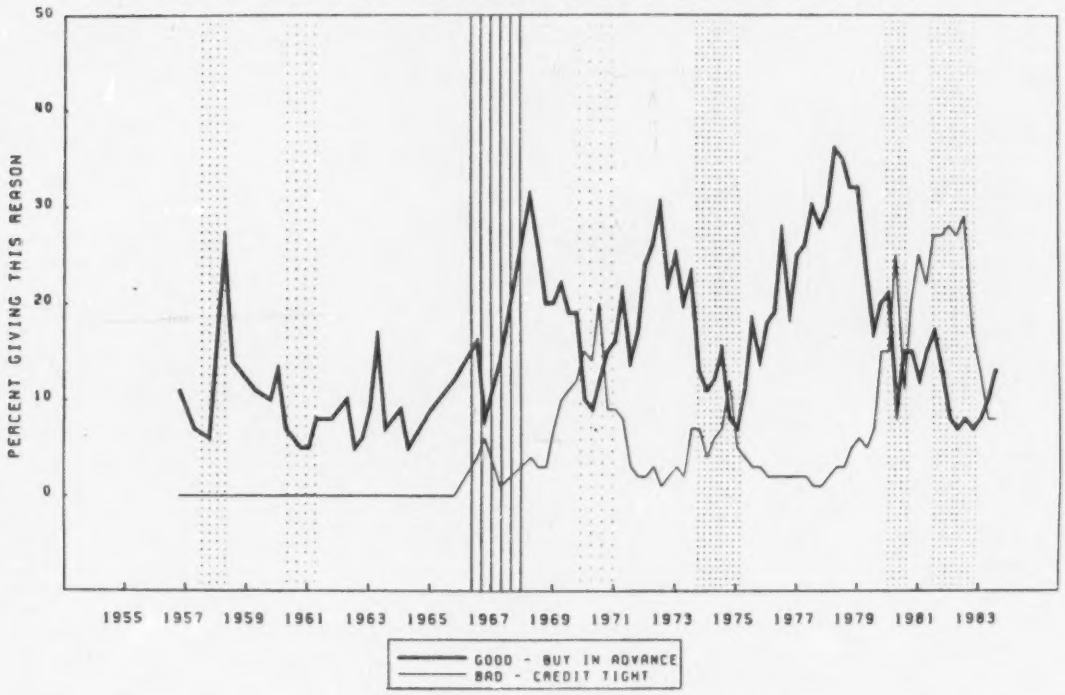

CHART 26 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

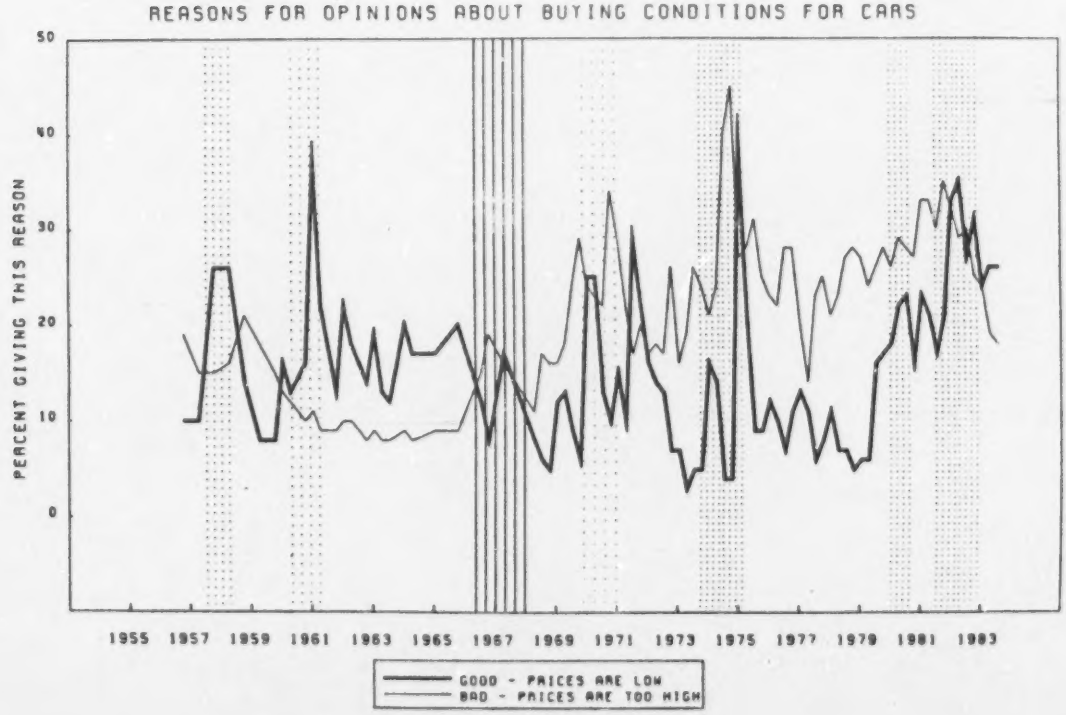

CHART 27- HISTORICAL SERIES

CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

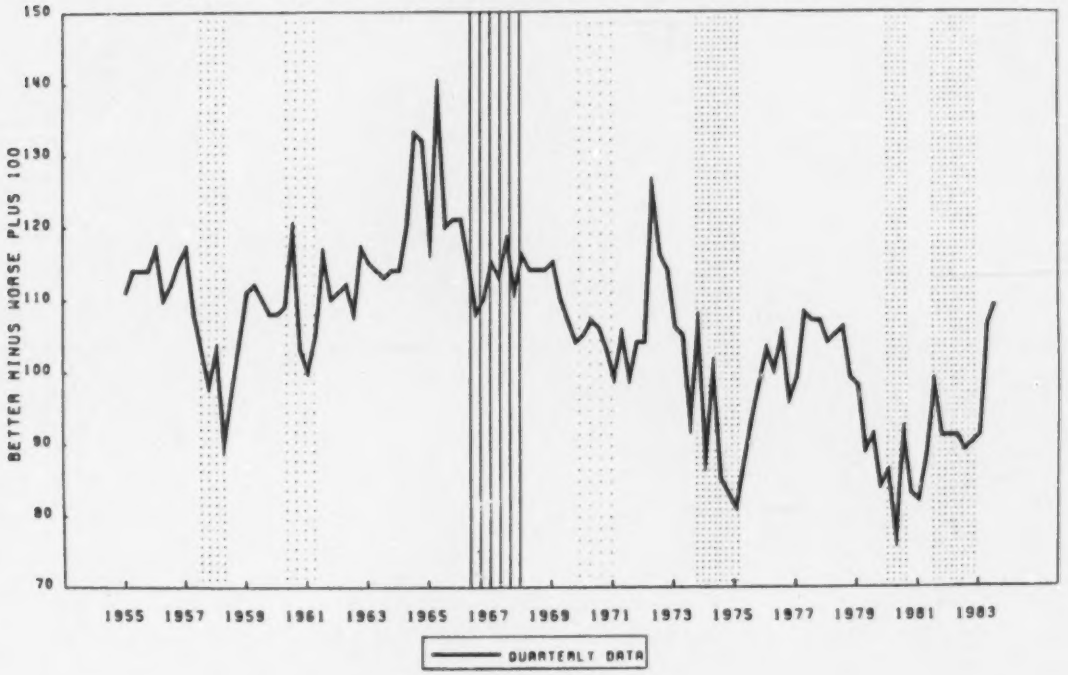

CHART 28

CURRENT PERSONAL FINANCIAL SITUATION AND THE CHANGE IN REAL INCOME PER HOUSEHOLD - CPI BASED

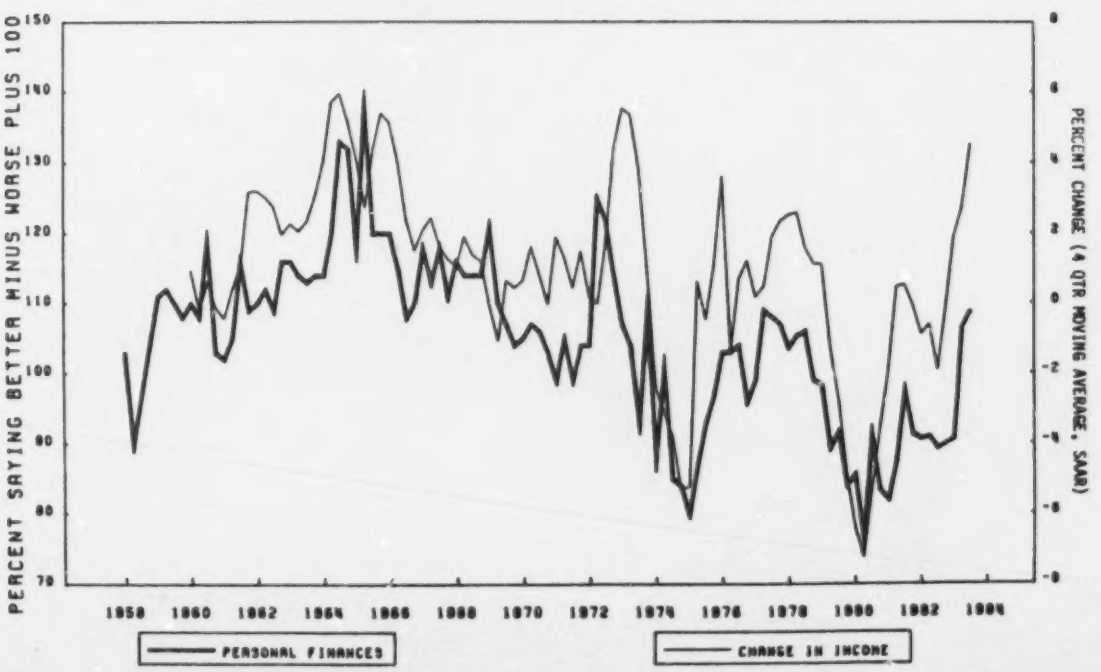

CHART 29 - HISTORICAL SERIES

REASONS FOR OPINIONS ABOUT PERSONAL FINANCIAL SITUATION

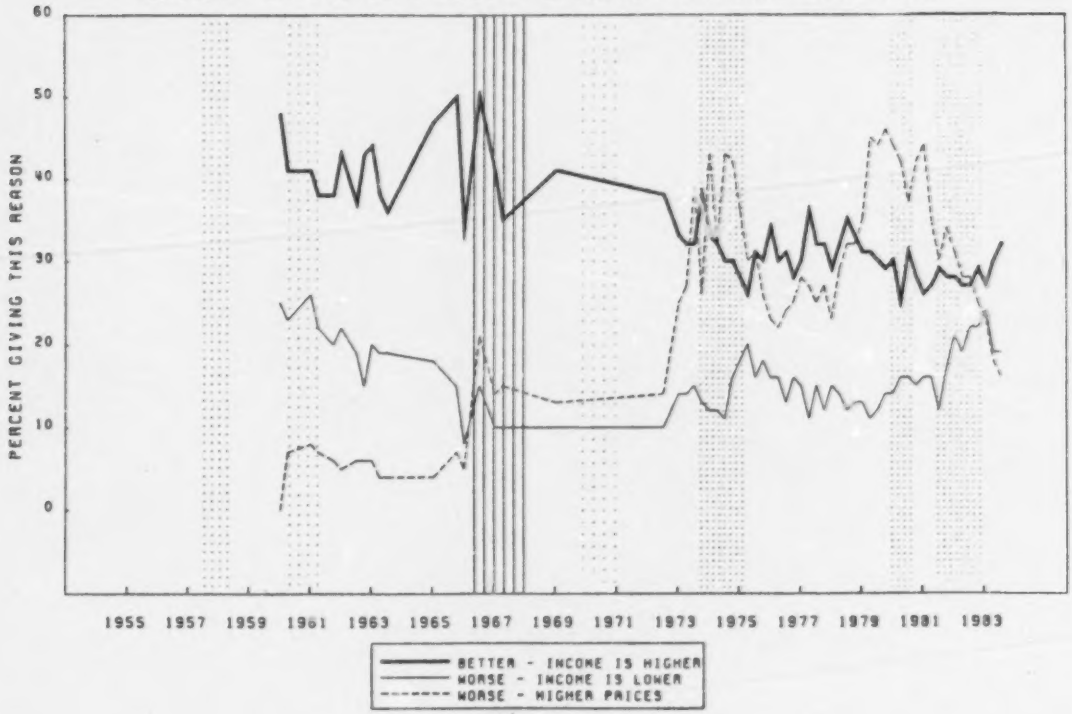

CHART 30 - HISTORICAL SERIES

EXPECTED CHANGE IN FINANCIAL SITUATION

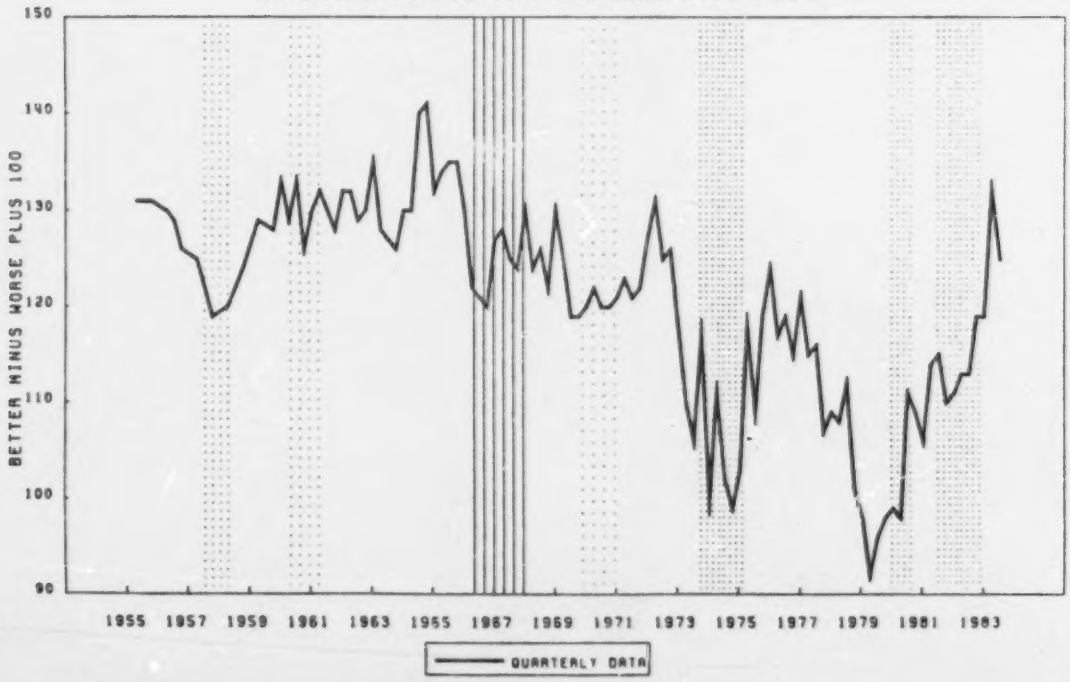

CHART 31 - RECENT CHANGES

MEDIAN EXPECTED CHANGE IN FAMILY INCOME

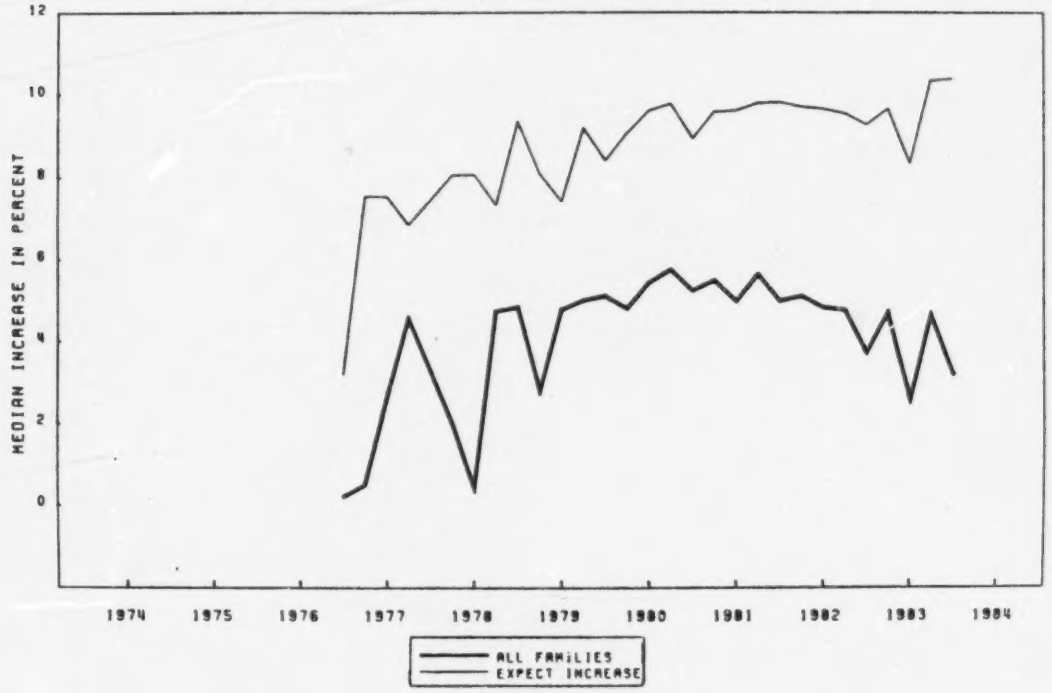

CHART 32 - RECENT CHANGES

INCOME OR PRICES UP MORE DURING THE NEXT YEAR

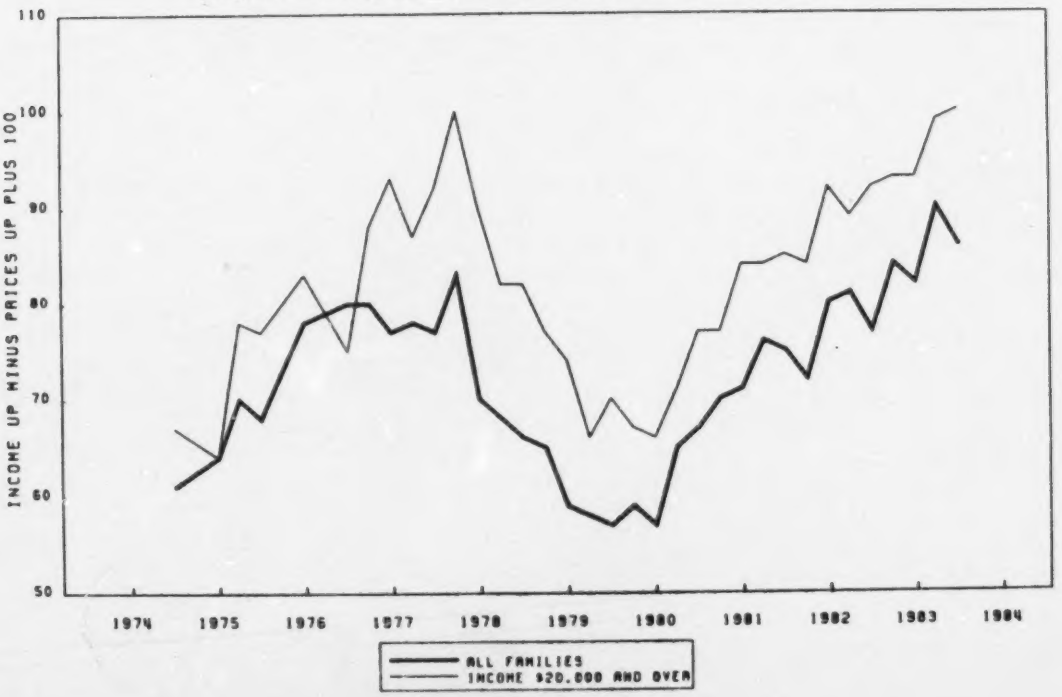

CHART 33

SAVING RATE - NIA AND FAB BASIS

FOUR QUARTER MOVING AVERAGES

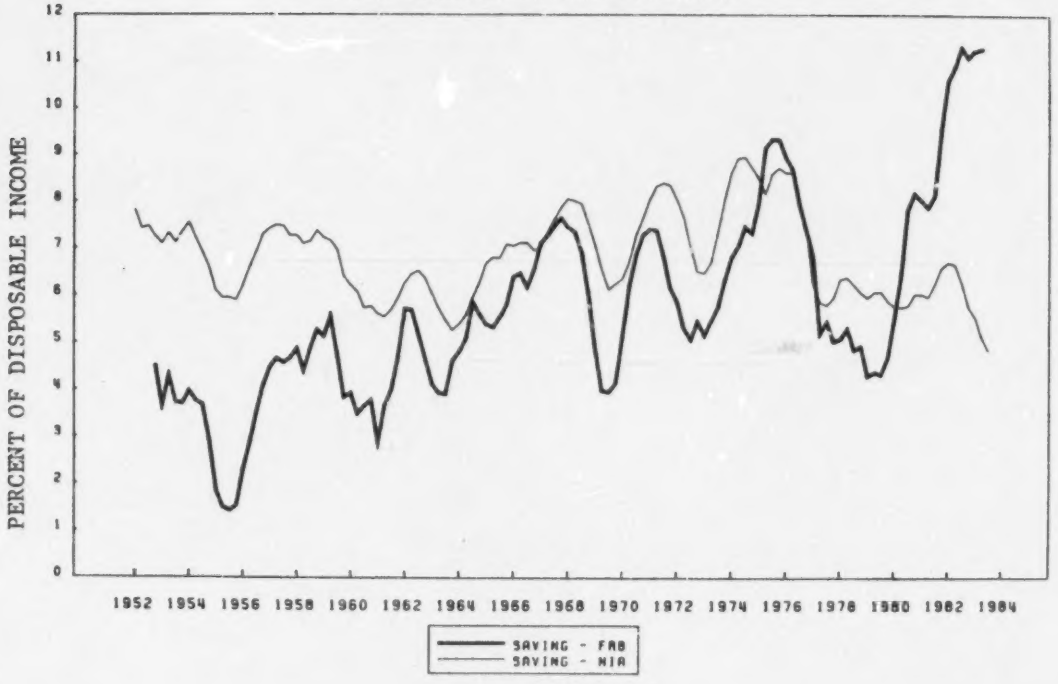

CHART 34

DIFFERENCE BETWEEN FAB AND NIA SAVING RATES

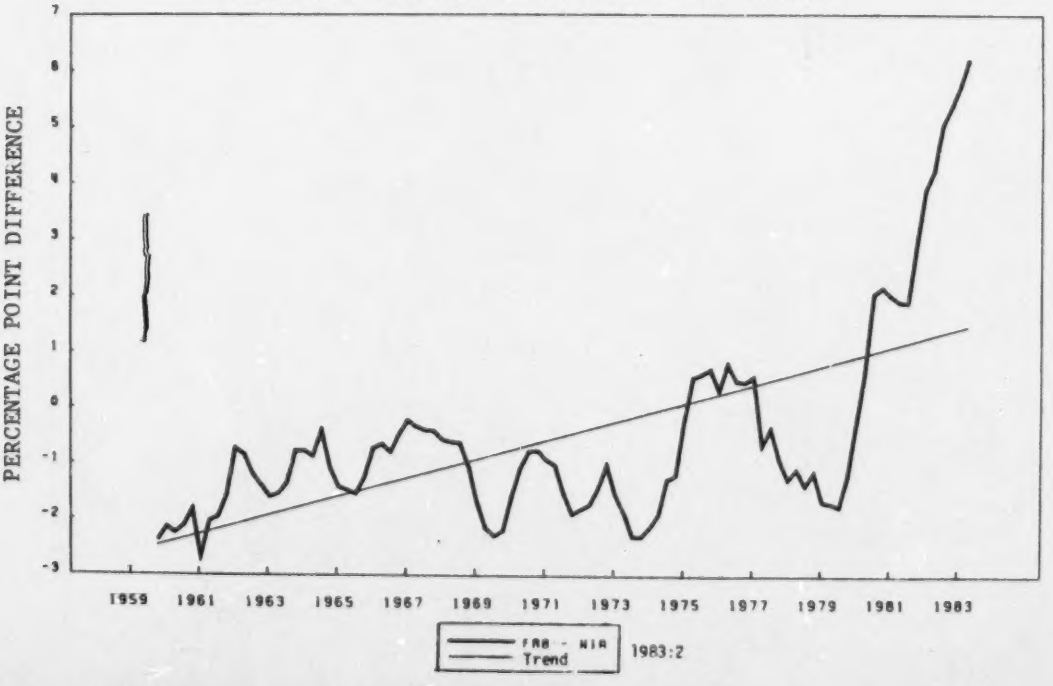

TABLE A. Attitudes toward Housing and Automobile Markets

	Houses		Cars	
	1977:2	1983:2	1978:2	1983:2
Proportion Holding favorable Attitudes	63%	64%	52%	65%
Selected Reasons:				
Low prices	4	23	7	26
High prices	22	13	23	19
Net	-18	+10	-16	+7
Low interest	12	57	1	40
High interest	10	23	3	8
Net	+2	+34	-2	+32
Buy-in-advance	47	7	36	10

TABLE B. Opinions about Whether Now Is a Good Time to Use Credit or Savings for Major Purchases

Opinion	1980:3	1981:3	1982:3	1983:3
OK to Use Credit	15%	13%	12%	27%
Pro/Con	1	1	1	1
Not OK to Use Credit	83	83	85	71
Don't Know; Not Ascertained	1	3	2	1
OK to Use Savings	30	29	25	36
Pro/Con	1	1	1	0
Not OK to Use Savings	60	68	72	62
Don't Know; Not Ascertained	9	2	2	2

The questions were "If there were something big that you wanted to buy, do you think that now is a time when it would be OK for you to buy it on credit, or is now a time when you would be especially reluctant to take on new debt?" and "If there were a major purchase that you wanted to make, do you think that now is a time when it would be OK to use some of your savings, or is now a time when you would be especially reluctant to use some of your savings?"

TABLE C

AGGREGATE FINANCIAL ASSET/LIABILITIES RATIOS

Ratios	1952	1957	1962	1967	1972	1977	1982
Financial Assets/Liabilities	5.29	4.26	4.07	4.12	3.85	2.95	3.09
Financial Assets/Liabilities less mortgages	12.78	11.47	11.54	11.07	9.89	7.55	8.42
Financial Assets/Income	2.12	2.38	2.78	3.00	2.81	2.24	2.42
Liabilities/Income	0.40	0.56	0.68	0.73	0.73	0.76	0.78
Liabilities minus Mortgages/Income	0.17	0.21	0.24	0.27	0.28	0.30	0.29

Source: Federal Reserve Board